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SUBJECT: Energy Secretary Chu and Commerce Secretary Locke Discuss
Energy and Climate Change with NDRC Chairman Zhang Ping and NEA
Director Zhang Guobao

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use only. Not for transmission outside USG channels.

¶1. (SBU) Summary: In a meeting with National Development and Reform
Commission (NDRC) Chairman Zhang Ping on July 14, Energy Secretary
Steven Chu and Commerce Secretary Gary Locke discussed how the
United States and China can work together on energy and climate
change. Chu pointed out that through the newly-proposed joint
research centers, the United States and China will be able to
develop new technologies to address these challenges. Zhang
suggested that the U.S.-China cooperation will send an important
signal to the international community and that the technology
breakthroughs they achieve together will spur economic development,
but stressed that because China is a developing country, the United
States should take the lead. Both sides agreed that getting
policies right, such as energy pricing, will be essential to making
progress. Locke urged Zhang to re-examine Chinese energy efficiency
policies that discriminate against foreign-invested companies, a
concern that Zhang dismissed as having already been addressed. In a
dinner hosted by the National Energy Administration (NEA) Director
Zhang Guobao following the Zhang Ping meeting, Zhang Guobao raised
questions on oil shale and carbon capture and storage (CCS). Zhang
indicated that he has no interest in CCS because he does not believe
it is worthwhile or cost effective. He argued that tree-planting is
a better approach. Chu explained that CO2 is indeed possible and
that a number of CCS experimental projects are currently away to
establish its feasibility and cost-effectiveness. End summary.

Meeting with NDRC Chairman Zhang Ping

Addressing Energy and Climate Change Long Term Process

¶2. (SBU) Zhang Ping opened the meeting by congratulating Secretary
Chu and Secretary Locke for being the first ethnic Chinese to occupy
their current positions in the U.S. Government. He joked that they
were probably better known in China than either he or National
Energy Administration Director Zhang Guobao (who is also a Vice
Chairman of NDRC). Zhang observed that the current financial crisis
will be dealt with relatively quickly, but that energy and climate
change issues will likely take decades to resolve. Chu agreed with
Zhang, pointing out that the United States and China are the two

most important countries in deciding the world's economic and energy future. Together, the two countries emit 42 percent of the world's carbon. He argued that unless the United States and China successfully address these issues, other issues will not matter. In the short term, he said, the United States will be focused on increasing energy efficiency, but for the long term it will need to develop new energy technologies. For that reason, he sees the proposed joint research centers as an important opportunity to develop these technologies. He noted that he has discovered that much of learning is in the doing -- like a cook or gardener -- and he hopes that the United States and China can learn to "cook" and "garden" together as they learn more about how to deal with these issues.

13. (SBU) Zhang state that by working together, the United States and China will send an important positive signal to the international community. He noted that the two countries have already been doing a lot together, including the Oil and Gas Forum, the Energy Policy Dialogue, the U.S.-China Ten Year Framework on Energy and Environmental Cooperation and other such arrangements. However, Zhang said he would look to the United States, as a developed country, to take the lead on technology development. The expected breakthroughs on technology will help establish a foundation for further economic development. Zhang pointed out that because of China's large, urbanizing population, it will need a lot of new buildings and infrastructure and the resulting energy consumption will be huge.

Energy Policies Important

14. (SBU) Developing better policies is a critical priority, Chu

BEIJING 00002073 002 OF 003

noted. For example, both the United States and China need to rationalize energy pricing. Some U.S. states have energy pricing that amounts to a de facto subsidy. There is also a great need to develop incentives to improve the energy efficiency of buildings so that more efficient buildings can pay for themselves in 10-20 years.

Regarding energy pricing, Zhang cited the recent decision to raise the prices of petroleum products in China as a "painful" experience because of the criticism NDRC received within China for taking this action. He pointed out that China has expended a great deal of effort in recent years to develop more renewable energy and conserve energy. In wind energy alone, China has expanded installed capacity from six GWs to 12 GWs. China has also become number one in the world in the production of solar panels. Chairman Zhang Ping reported that NEA's Zhang Guobao is concerned about the potential for overbuilding in certain areas like wind energy that will not have the supporting infrastructure. Nevertheless, Zhang Ping offered assurances that the energy efficiency goals of the 11th and 12th Five-Year Plans will be met. In this regard, he expressed satisfaction with the progress in China's nuclear power program, since the construction of the first AP1000 unit has already begun. Agreeing with Zhang on the urgency to take action,

15. (SBU) Chu said it was because of his concerns about climate change that he abandoned a comfortable position as a professor to become the director of the Lawrence Berkeley National Laboratory. White House Cabinet Secretary Chris Lu added that President Obama had said that one of the most important challenges of this generation is climate change, which is why he made such an effort to win passage of the (Waxman-Markey) climate change bill. Moreover, it was only possible to pass the bill because of assurances that other countries like China will also be taking action.

16. (SBU) Locke praised China for the progress it has made over the past 30 years since the establishment of U.S.-China relations. He noted that when he visited China in January, former President Carter and former Secretary of State Kissinger both highlighted the U.S.-China relationship as the world's most important bilateral relationship. And now, he added, the United States and China have a great opportunity to work together on energy and climate change. While the western countries may be largely responsible for the accumulation of greenhouse gases in the atmosphere, China must now embrace its own responsibility to save the planet, he said. China

has made great contributions to the world such as printing, the compass and paper, but it would be a shame if China could not work together with the United States to address climate change. Referring to a Chinese policy that encourages companies to buy domestically-produced energy-efficient products, he urged NDRC to re-examine this policy because of its bias against foreign-invested joint ventures that produce in China.

China Still a Developing Country

17. (SBU) In reacting to Locke's comments, Zhang Ping maintained that although China has made many important contributions to mankind, it has still lagged behind the western countries and remains a developing country. While China has many tall buildings and cars, its productivity is still very low. Zhang said China does not wish to follow the western development model of developing first and cleaning up later, but hopes to adopt an approach that preserves natural resources. He argued that western countries have the greater responsibility and that China will take on responsibilities consistent with its own capacity. In addressing climate change, Zhang affirmed that China is willing to work with the United States. Regarding the policy that Locke mentioned, Zhang suggested that Locke's concerns had already been dealt with and that foreign joint ventures now enjoy national treatment. Only Chinese Government procurement would have any restrictions.

Dinner with NEA Director Zhang Guobao

18. (SBU) At a follow-on dinner, National Energy Director Zhang Guobao reminded Secretary Locke that they had met before during a visit to Washington State when Locke was still the governor.

BEIJING 00002073 003 OF 003

Turning to Secretary Chu, Zhang referred to Chu's background as a famous professor and said he had nine questions he hoped Chu would answer during the course of the dinner. Zhang noted that he had enjoyed a long term relationship with the U.S. Department of Energy and had been friends with former Energy Secretary Bodman. Chu commented that he had earlier been involved with several projects with China, including a neutrino experiment and a particle accelerator project. In terms of research, he pointed out that DOE is the biggest funder of physical science in the world and has supported more Nobel Prize winners than any funding agency in the world.

Oil Shale and CCS

19. (SBU) One of Zhang's questions was about how the United States had been able to exploit its ample reserves of shale gas, noting that China also has substantial reserves. Chu responded that the United States had been successful in releasing more gas through cracking the rocks. Zhang suggested that perhaps the two countries would work on a joint development program focused on shale gas. Locke commented that he was sure there were many U.S. companies that would be happy to cooperate with China in this area. Chu proposed that the two countries concentrate joint research efforts on carbon capture and sequestration (CCS), especially with regard to coal gasification and post-combustion. Because both the United States and China have large coal reserves, there is a great challenge in using it cleanly. He noted that the United States currently has 6-7 on-going experimental CCS projects. He suggested that coal, ideally, should be used for the production of chemicals and only used as fuel at times of peak energy demand.

Questions about CCS

10. (SBU) Regarding CCS research, Zhang cited the GreenGen project, in which a United States company (Peabody Coal) is cooperating with the Chinese Huaneng company, as an example of how the United States and China are already cooperating on a zero-emissions experimental initiative. However, he admitted, he personally has no interest in

CCS. He contended that because of the high costs and the small amount of CO₂ that would be captured (one percent), he did not think CCS was worth the cost. Instead, he argued, it would be more worthwhile to plant trees in the desert.

¶11. (SBU) When Chu challenged Zhang's assumptions regarding CCS, Zhang explained that since a single mole of carbon (12 grams), when burned, produces 22.4 liters of CO₂, it is simply impossible to store all of the CO₂ from coal-fired power plants underground. Chu pointed out that the CO₂ does not remain in gaseous form when it is sequestered. For example, when stored in saline deposits, the CO₂ dissolves. A single bore hole can accommodate up to 100 tons of CO₂. He further noted that China already has several IGCC (integrated gasification combined cycle) projects in progress and that General Electric is introducing new IGCC technology in China that can use low-quality coal.

¶12. (U) In concluding the dinner, Zhang said he had only gotten through four of his nine questions, but looked forward to discussing the remaining questions in a future meeting.

¶13. (U) Secretaries Chu and Locke did not have an opportunity to review this report before departing Beijing.

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